
CHAPTER 4**4-000 Cost Accounting Standards****4-101 Cost Accounting Standards (Public Law 100-679) ¹**

a. The Cost Accounting Standards Board (CASB) was established as an agency of Congress in accordance with a provision of Public Law 91-379. It was authorized to promulgate cost accounting standards (CAS) designed to achieve uniformity and consistency in the cost accounting principles followed by defense contractors and subcontractors under Federal contracts as a condition of contracting. Contractors subject to full CAS coverage are required to disclose in writing their cost accounting practices, to follow the disclosed practices consistently, and to comply with duly promulgated cost accounting standards. The CASB went out of existence on September 30, 1980 as a result of Congress' decision not to provide additional funding.

b. In December 1988, Congress passed legislation to re-establish the CASB. That legislation (PL 100-679) expressly continued in effect all then-existing standards, waivers, exemptions, interpretations, modifications, rules and regulations issued by the original CASB. The legislation expanded the applicability of CAS to all executive agencies and their contractors and subcontractors. The new CASB is located in the Office of Federal Procurement Policy (OFPP), which is under the Office of Management and Budget (OMB). The CASB consists of five members: the Administrator of OFPP, who is the Chairman, and one member each from DoD, GSA, industry, and the private sector (generally expected to be from the accounting profession). On April 17, 1992 the CASB's rules and regulations previously found at both FAR Part 30 and 4 CFR Parts 331 through 420, were recodified at 48 CFR Chapter 99.

c. Regulations implementing CAS appear in 48 CFR Part 9903 and in FAR Part 30.

d. The official rules, regulations, and standards issued by the CASB are binding on all executive agencies, their contractors, and subcontractors. Therefore, in pricing, administering, and settling contracts covered by this legislation, CASB standards, and associated CASB regulations and interpretations, must be used to estimate, accumulate, and report the associated costs.

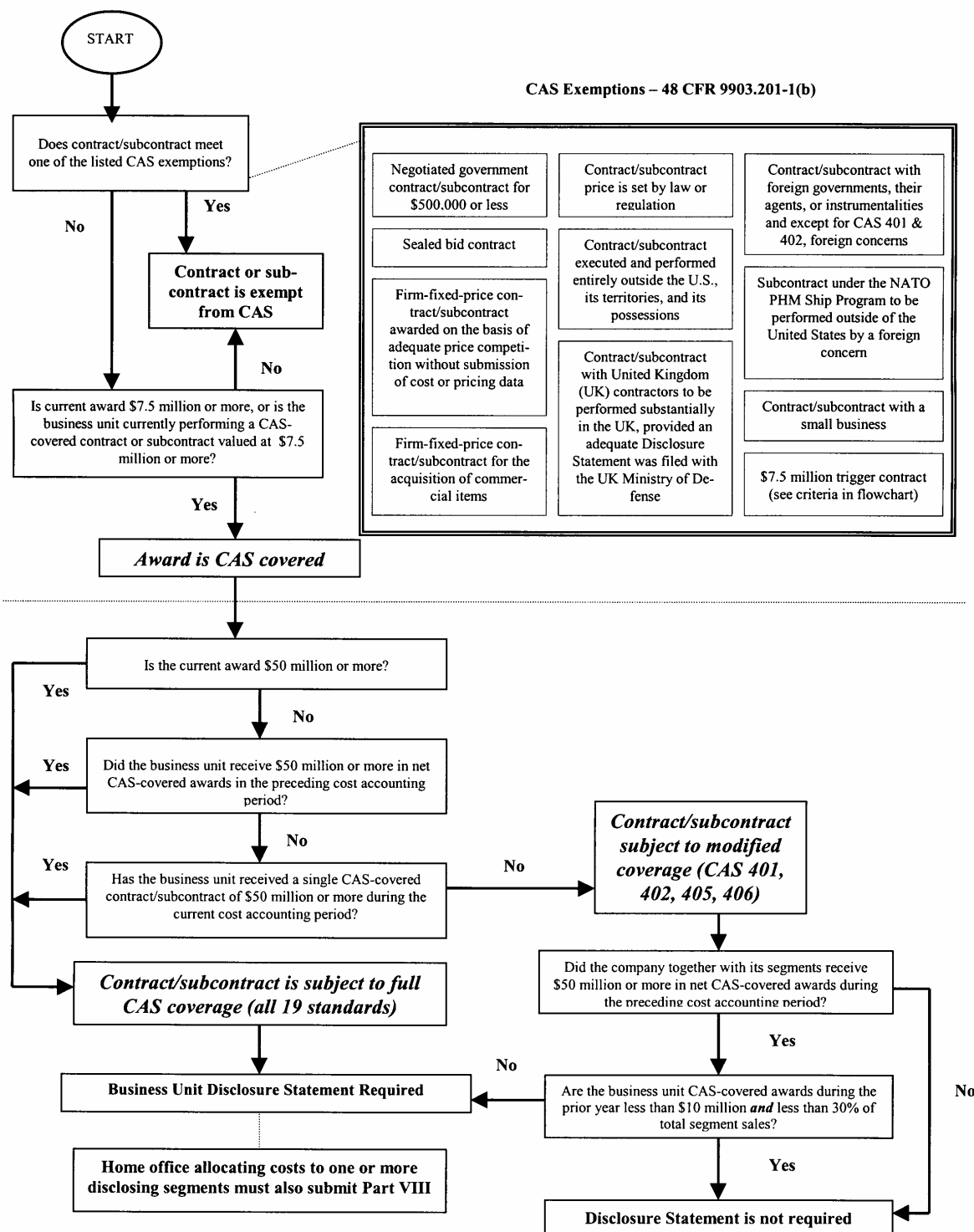
4-102 Cost Accounting Standards (CAS) Applicability

A flowchart for determining CAS applicability and Disclosure Statement submission (see 4-105) is shown in Figure 4-1-1.

¹ Small businesses are exempt from Cost Accounting Standards requirements per 48 CFR 9903.201-1(b)(3).

Figure 4-1-1

CAS Applicability and Disclosure Statement Determination



a. The CASB has issued 19 cost accounting standards that have the full effect of law. CASB rules, regulations, and standards apply to negotiated contracts that are not exempt in accordance with 48 CFR 9903.201-1. Full CAS coverage applies to a contractor business unit that:

(1) Receives a single CAS-covered contract award of \$50 million or more; or

(2) Receives \$50 million or more in net CAS-covered awards during its preceding cost accounting period.

b. Modified CAS coverage requires only that the contractor comply with CAS 401, 402, 405 and 406 (Disclosure and Consistency of Cost Accounting Practices clause, FAR 52.230-3). Modified CAS applies to a negotiated non-exempt contract of less than \$50 million but more than \$500,000 awarded to a business unit that received less than \$50 million in net CAS-covered awards during its preceding cost accounting period.

4-103 CAS Exemptions

The following categories of contracts and subcontracts are exempt from all CAS requirements (48 CFR 9903.201-1(b)).

a. Sealed bid contracts.

b. Negotiated contracts and subcontracts not in excess of \$500,000. For purposes of this exemption, an order issued by one segment to another segment shall be treated as a subcontract.

c. Contracts and subcontracts with small businesses. FAR Subpart 19.3 addresses determination of status as a small business. A small business (offeror) is one that represents, through a written self certification, that it is a small business concern in connection with a specific solicitation and has not been determined by the Small Business Administration (SBA) to be other than a small business. The contracting officer accepts an offeror's representation unless that representation is challenged or questioned. If the status is challenged, the SBA will evaluate the status of the concern and make a determination. (Specific standards appear in Part 121 of Title 13 of the Code of Federal Regulations.)

d. Contracts and subcontracts with foreign governments or their agents or instrumentalities or, insofar as the requirements of CAS other than CAS 9904.401 and 9904.402 are concerned, any contract or subcontract awarded to a foreign concern.

e. Contracts and subcontracts in which the price is set by law or regulation.

f. Firm fixed-price and fixed-price with economic price adjustment (provided that price adjustment is not based on actual costs incurred) contracts and subcontracts for the acquisition of commercial items.

g. Contracts or subcontracts of less than \$7.5 million, provided that, at the time of the award, the business unit of the contractor or subcontractor is not currently performing any CAS-covered contracts or subcontracts valued at \$7.5 million or greater.

h. Contracts and subcontracts awarded to a United Kingdom contractor for performance substantially in the United Kingdom, provided that the contractor has filed with the United Kingdom Ministry of Defense a completed Disclosure Statement (Form No. CASB DS-1) which shall adequately describe its cost accounting practices.

i. Subcontracts under the NATO PHM Ship program to be performed outside the United States by a foreign concern.

j. Contracts and subcontracts to be executed and performed entirely outside the United States, its territories, and possessions.

k. Firm-fixed-price contracts or subcontracts awarded on the basis of adequate price competition without submission of cost or pricing data.

4-104 Flowdown of CAS Clauses (FAR 52.230-2 and 3)

The prime contract CAS clauses at FAR 52.230-2 and FAR 52.230-3 require that contractors flow the CAS requirements down to subcontractors and require subcontractors to flow them down to lower tier subcontractors. Subcontractors must comply with any applicable standards in effect at the time the subcontract is awarded plus any new standards that become applicable to the subcontractor.

4-105 Submission of Disclosure Statement Form No. CASB DS-1 (48 CFR 9903.202)

Contractors must use a disclosure statement format prescribed by the CASB when describing their cost accounting practices. Completed disclosure statements are required in the following circumstances:

a. Any business unit that is selected to receive a CAS-covered contract or subcontract of \$50 million or more shall submit a disclosure statement before award.

b. Any company which, together with its segments, received net awards of negotiated prime contracts and subcontracts subject to CAS totaling \$50 million or more in its most recent cost accounting period must submit a disclosure statement before award of its first CAS-covered contract in the immediately following cost accounting period.

c. When a disclosure statement is required, a separate disclosure statement must be submitted for each segment whose costs are included in the total price of any CAS-covered contract or subcontract exceeding \$500,000, unless: (1) the contract or subcontract is of the type or value exempted by 9903.201-1, or (2) in the most recently completed cost accounting period the segment's CAS-covered awards are less than 30 percent of total segment sales for the period *and* less than \$10 million.

d. Each corporate or other home office that allocates costs to one or more disclosing segments performing CAS-covered contracts must submit Parts I and VIII of the disclosure statement.

4-106 Adjustment of Contracts

CASB regulations provide for equitable adjustment of the price of existing contracts if a new standard, modification to an existing standard or an interpretation requires a change in a contractor's cost accounting practices. Equitable adjustment is also provided for changes that the cognizant Federal agency official finds to be desirable and not detrimental to the government. Contract price adjustments also may be required to protect the Government from any increased costs caused by contractor-initiated unilateral accounting changes, contractor noncompliance with existing standards, or contractor failure to follow any cost accounting practice consistently.

4-107 DCAA Audit Responsibility

FAR 30.202-6, 30.202-7, 30.602-1, 30.602-2, and 30.602-3 outline the basic functions of the contract auditor in the implementation of the standards. DCAA is responsible for recommendations to the administrative contracting officer regarding whether:

- a. A contractor's disclosure statement adequately describes the actual or proposed cost accounting practices;
- b. A contractor's described practices comply with FAR Part 31 and the applicable cost accounting standards.
- c. A contractor's changed cost accounting practice is adequately described and compliant with FAR Part 31 and the applicable cost accounting standards;
- d. A contractor's cost impact proposal is adequate and reflects the proper amount of contract price adjustments.